



## Weekly Outlook: Corn and Soybean Demand and Acreage Prospects for 2012

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Corn and soybean prices have declined sharply since the release of the USDA's November *Crop Production* report that contained smaller forecasts of the size of the 2011 harvest for both crops. In addition, the historically strong corn basis has begun to weaken in many markets.

The recent price behavior suggests that the market believes that the combination of very high prices in the late summer and early fall and weaker demand prospects have been sufficient to ration the relatively small crops. Weaker export demand prospects stem from a combination of increased competition from other exporters and concerns about world economic and financial conditions. For corn, the competition is from the large corn and wheat crops in 2011 while soybean export demand is being influenced by prospects of another large South American harvest in 2012. While world financial conditions are deteriorating, the impact on world grain consumption may be over stated. The record large exports of U.S. pork and beef in the face of record high prices provide evidence that world demand for food remains very strong. Foreign crop production prospects will dominate the outlook for U.S. crop exports.

Domestic demand prospects for corn remain mixed. Current demand is very strong as ethanol production continues to exceed the pace of a year ago and record hog and cattle prices, along with large feedlot inventories of cattle, support feed demand. Reduced broiler production, prospects for fewer cattle on feed in 2012, and the upcoming expiration of the blender tax credit for ethanol may point to weaker domestic demand in 2012. For soybeans, the pace of the domestic crush was very slow in the first two months of the marketing year, reflecting a slower pace of meal and oil exports.

While the markets will continue to reflect changing demand prospects for the 2011 crop, the potential size of the 2012 U.S. crops will also begin to have more influence as the new calendar year begins. Prospects for the 2012 crop begin with expectations about planted and harvested acreage for all crops and for individual crops. Anticipating total planted acreage is made difficult by the fact that planted acreage varies considerably from year to year. In general, an increase in total acreage is expected next year due to the large area of prevented plantings in 2011. The USDA's Farm Service Agency reports 9.6 million acres of prevented plantings in 2011, up from 6.9 million in 2009 and 4.2 million in 2008. However, the change in prevented plantings is not closely correlated to the change in planted acreage. The USDA's National

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Agricultural Statistics Service estimates that planted acreage of all crops increased by 1.4 million acres in 2011 even though prevented plantings increased by 2.7 million acres. Harvested acreage of hay declined by 2.26 million, so that total crop acreage declined by only 860,000 acres.

Another reason to expect an increase in crop acreage in 2012 is the net decline of 1.6 million acres enrolled in the Conservation Reserve Program in 2011. It is not clear how much of that acreage will be planted in the fall of 2011 or spring of 2012, but some of that acreage will likely come back into crop production.

In addition to an increase in planted acreage in 2012, it is generally expected that a larger percentage of the acreage will be harvested in 2012 than in 2011. While harvested acreage estimates for corn and sorghum silage have not yet been made, it appears that unharvested acreage of all crops in 2011 was nearly 9 million acres larger than in 2010 and 3 million acres larger than in 2009. Most of the year-over-year increase in abandoned acres was for area planted to wheat and cotton, reflecting the widespread drought conditions in the southwest.

A case can be made for a large increase in harvested crop acreage in 2012 compared to harvested acreage in 2011. The magnitude of the increase will be influenced by planting and growing season weather. The ongoing drought conditions in the southwest and expanding dry conditions in the western Corn Belt underscore the uncertainty about 2012 production prospects.

In addition to total acreage, the market will continue to form expectations about acreage of individual crops. Currently, futures prices for the 2012 corn crop are \$.35 to \$.45 lower than prices for the 2011 crop. Futures prices for the 2012 soybean crop are \$.10 to \$.25 higher than the prices for the 2011 crop. The price structure implies that an increase in U.S. corn production is expected in 2012. That increase is expected to begin with an increase in planted acreage. Acreage prospects for 2012 will unfold slowly, starting with the USDA's January 12, 2012 Winter Wheat Seedings report and followed by the March 30, 2012, Prospective Plantings report.

Given the considerable uncertainty about 2011-12 marketing year consumption and 2012 production prospects, December corn futures should find some support near the early October low of \$5.70 and nearby soybean futures are finding support near \$11.